

ARTHUR YOUNG & COMPANY

120 MONTGOMERY STREET
SAN FRANCISCO 94104

The Board of Directors and Stockholders
Intel Corporation

We have examined the accompanying balance sheet of Intel Corporation at December 31, 1968 and the related statement of operations and deficit for the period from July 18, 1968 (date of incorporation) to December 31, 1968. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements mentioned above present fairly the financial position of Intel Corporation at December 31, 1968 and the results of its operations for the period from July 18, 1968 (date of incorporation) to December 31, 1968, in conformity with generally accepted accounting principles consistently applied.

A large, stylized handwritten signature in cursive script that reads "Arthur Young & Company". The signature is written in dark ink and occupies the right side of the page.

January 30, 1969

INTEL CORPORATION
NOTES TO FINANCIAL STATEMENTS
December 31, 1968

1. Operations

At the present time, the Company's operations consist only of research and development of certain new semiconductor devices. Accordingly, no sales were recorded in the period ended December 31, 1968.

2. 6% convertible subordinated debentures

In October 1968, the Company issued \$2,500,000 of 6% convertible subordinated debentures, due October 1, 1978. The debenture holders, at their option, are entitled to convert the debentures into shares of the Company's common stock at a conversion price of \$5.00 per share, subject to adjustment as provided in the debenture agreement.

Interest is payable semiannually commencing October 1, 1971. No interest is payable with respect to a debenture for the period from October 1, 1968 through September 30, 1971 unless that debenture is not converted prior to October 31, 1978. On the assumption that all debentures will be converted, no interest expense has been accrued for the period ended December 31, 1968.

The Company, by payment of a redemption premium, may redeem the debentures at any time after October 1, 1969. Beginning in October 1973, the Company is required to contribute \$250,000 per year into a sinking fund for the purpose of making such redemptions annually.

INTEL CORPORATION
NOTES TO FINANCIAL STATEMENTS
December 31, 1968

2. 6% convertible subordinated debentures (continued)

Under the terms of the debenture agreement, the Company cannot declare any cash dividends until all debentures are redeemed or converted. However, this restriction is to be removed in the event the Company makes a public offering of its shares pursuant to a registration statement filed with the Securities and Exchange Commission.

Any provision of the debenture agreement may be amended with the consent of holders of not less than 66-2/3 percent in principal amount of the outstanding debentures.

3. Common stock

The Company's stockholders have approved a qualified stock-option plan whereby key employees may be granted options to purchase, within 5 years from the date of grant, shares of the Company's authorized but unissued common stock at the fair market value at the date of grant. Options for the issuance of 100,000 shares may be granted under the plan. At December 31, 1968, options had been granted for 64,700 shares at a price of \$5.00 per share.

The stockholders have also approved, effective January 1, 1969, an employee stock-purchase plan whereby eligible employees may purchase shares of the Company's authorized unissued common stock at the market price on the date of purchase. The Company has reserved 25,000 shares for issuance under this plan.

INTEL CORPORATION
NOTES TO FINANCIAL STATEMENTS
December 31, 1968

4. Commitments

The Company leases all of its capital equipment for periods from 4 to 8 years. Under equipment leases entered into through December 31, 1968, the Company is obligated to pay rent in 1969 amounting to approximately \$75,000.

Orders have been placed for additional leased equipment, to be received throughout 1969, which will require rental payments aggregating approximately \$80,000 per year. Rent payments will begin at the time each piece of equipment is delivered.

The Company's plant and general offices are located in leased facilities. Under the lease, which expires in 1974, the Company is obligated to pay rent in 1969 amounting to \$49,400.

INTEL CORPORATION

STATEMENT OF OPERATIONS AND DEFICIT (NOTE 1)

Period from July 18, 1968 (date of incorporation)
to December 31, 1968

Interest income		\$ 2,672
Operating expenses:		
Research and development	\$348,477	
Marketing	33,527	
General and administrative	<u>66,762</u>	<u>448,766</u>
Net loss and deficit		<u>\$446,094</u>

See accompanying notes.

INTEL CORPORATION

BALANCE SHEET

December 31, 1968

ASSETS

Current assets:

Cash, including \$2,550,000 certificates of deposit	\$2,583,136
Prepaid expenses	<u>10,024</u>
Total current assets	2,593,160

Leasehold improvements, at cost less accumulated amortization of \$166	36,508
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Other assets	<u>7,248</u>
	<u>\$2,636,916</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

Trade accounts payable	\$ 47,963
Accrued liabilities	<u>35,047</u>
Total current liabilities	83,010

6% convertible subordinated debentures (note 2)	2,500,000
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Commitments (note 4)	-
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Stockholders' equity:

Common stock, \$1 par value, 2,000,000 shares authorized, 500,000 shares issued and outstanding (notes 2 and 3)	\$ 500,000
Deficit	<u>(446,094)</u>
Total stockholders' equity	<u>53,906</u>

\$2,636,916

See accompanying notes.